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Turning Market Orientation into MSME Performance: Does Innovativeness Matter?

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ABSTRACT

Micro, small, and medium enterprises (MSMEs) constitute a cornerstone of Indonesia's economy; however, maintaining their business performance continues to pose a persistent challenge. Although prior studies have consistently highlighted the strategic importance of market orientation in enhancing business performance, the underlying mechanisms through which this orientation is translated into tangible outcomes remain insufficiently understood, particularly with regard to the mediating role of innovativeness. To address this gap, the present study examines the relationships between market orientation, innovativeness, and MSMEs' business performance. Data were collected through structured questionnaires administered to MSME owners and managers who are actively engaged in innovation-related activities, yielding 159 valid responses for analysis using Partial Least Squares Structural Equation Modeling (PLS-SEM). The findings reveal that the dimensions of market orientation do not contribute uniformly to MSMEs' innovativeness. More importantly, innovativeness emerges as a key mechanism that helps convert most market-oriented practices into superior business performance. These insights enrich market orientation theory while offering practical guidance for MSME owners and managers seeking to strengthen performance through market-driven innovation. In light of existing literature, this study represents one of the early empirical efforts to demonstrate the mediating role of innovativeness in the relationship between market orientation and MSME performance.

Keywords: Business performance; Innovativeness; Micro, small, and medium enterprises; Market orientation; Customer orientation; Competitor orientation; Inter-functional coordination; Supplier orientation.

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Introduction

Small and medium-sized enterprises (SMEs) are widely regarded as a cornerstone of economic development, particularly in emerging markets. The World Bank (2019) highlights their substantial contribution to economic expansion, innovation, and employment creation. Their strategic importance is especially evident in Indonesia, where micro, small, and medium enterprises (MSMEs) account for more than 60% of national gross domestic product and provide employment for approximately 97% of the

workforce (Limanseto, 2025). These contributions underscore the central role assigned to MSMEs in supporting the achievement of Indonesia's economic growth objectives.

Despite their substantial economic contribution, Indonesian MSMEs are currently confronted with increasing challenges that threaten their ability to sustain performance. Reports from the Ministry of Cooperatives and SMEs revealed that by mid-2025, many MSMEs experienced declining revenues—an important indicator of business performance (Ayuningrum, 2025). This downward trend persisted into early 2026 (Ruslia, 2026), suggesting a prolonged period of financial strain. Moreover, data from Bank Indonesia show that the growth of MSME credit distribution reached its lowest level since the COVID-19 crisis during mid-2025 (Widyatama, 2025), with further declines continuing into early 2026 (Tesaloni, 2026). Collectively, these conditions signal a slowdown in MSME growth that may undermine their overall performance and long-term sustainability.

Within the management literature, market orientation has been widely acknowledged as a strategic factor capable of enhancing organizational performance. In the SME context, numerous recent studies have confirmed the significant contribution of market orientation to performance improvement (Alhamami et al., 2024; Ngo, 2024; Chaudhary et al., 2023; Lobo et al., 2023; Kovács & Szakály, 2022; Caemmerer & Hynes, 2022; Sarwoko et al., 2023). Nevertheless, important limitations remain within the existing body of knowledge. First, prior studies have not sufficiently clarified the mechanisms through which market orientation translates into improved SMEs' performance. Even recent empirical studies have tended to focus primarily on direct relationships, leaving the underlying processes largely unexplored (Alhamami et al., 2024; Ngo, 2024; Chaudhary et al., 2023; Lobo et al., 2023; Sarwoko et al., 2023; Caemmerer & Hynes, 2022; Kovács & Szakály, 2022). As a result, the pathways that convert market orientation practices into tangible performance outcomes remain insufficiently understood.

On the other hand, previous studies have consistently suggested that innovativeness represents an important outcome of market orientation. For instance, Alhakimi & Mahmoud (2020) demonstrated that market orientation significantly influences SMEs' innovativeness, a finding that aligns with earlier studies highlighting the same relationship (Suliyanto & Rahab, 2011; Tajeddini et al., 2006). Furthermore, a growing body of studies confirms that organizational innovativeness contributes positively to SME performance (Omri et al., 2024; Tran et al., 2024; Boateng et al., 2020; Ng et al., 2019). Building on these insights, it is reasonable to propose that innovativeness may serve as a key mechanism through which market orientation enhances MSMEs' performance, which has limited empirical attention. Given the limited studies examining the interplay among market orientation, innovativeness, and MSME performance, this study argues that innovativeness deserves greater consideration as a potential mediating pathway capable of addressing this gap.

Second, many studies on market orientation continue to focus solely on three dimensions, namely customer orientation, competitor orientation, and inter-functional coordination, consistent with the classical conceptualization of market orientation proposed by Narver & Slater (1990). This three-dimensional structure remains widely applied in recent empirical studies (Alkandi & Helmi, 2024; Agyei et al., 2023; Aydin, 2021; Hoang & Bui Thanh, 2021; Jancenelle et al., 2022; Ngo, 2023). However, in the context of small business innovativeness, Sang et al. (2024) found that innovativeness is shaped not only by an understanding of customers and the monitoring of competitors, but also by supplier participation and collaboration. Furthermore, Alhakimi & Mahmoud (2020) argue that supplier orientation should be incorporated into the market orientation framework to extend the earlier model and provide a more comprehensive assessment of its influence on SME innovativeness. These arguments highlight the importance of integrating supplier orientation as a fourth dimension of the market orientation framework.

Accordingly, unlike previous studies that have primarily examined the direct effect of market orientation on business performance (Alhamami et al., 2024; Ngo, 2024; Chaudhary et al., 2023; Lobo et al., 2023; Sarwoko et al., 2023; Caemmerer & Hynes, 2022; Kovács & Szakály, 2022) and only focused on its three classical dimensions (Alkandi & Helmi, 2024; Agyei et al., 2023; Aydin, 2021; Hoang & Bui Thanh,

2021; Jancenelle et al., 2022; Ngo, 2023), this study investigates the relationships between market orientation and innovativeness, as well as between innovativeness and business performance, among MSMEs in Indonesia by incorporating supplier orientation as a fourth dimension alongside customer orientation, competitor orientation, and inter-functional coordination to extends the conventional market orientation framework. The study also examines whether these four dimensions generate performance outcomes through the same innovation-based mechanism. To achieve these objectives, the study is guided by the following research questions:

RQ1: How do the dimensions of market orientation influence innovativeness, and how does innovativeness affect MSME performance?

RQ2: Through which dimensions of market orientation does innovativeness transmit performance benefits to MSMEs?

From a theoretical standpoint, this study addresses the limited understanding of the dimension-specific mechanisms through which market orientation is converted into MSME performance. By disaggregating market orientation into customer orientation, competitor orientation, inter-functional coordination, and supplier orientation, and by positioning innovativeness as an intervening mechanism, the study extends the market orientation framework by demonstrating that its performance effects are not uniform but depend on how each dimension is translated into innovative action. Practically, given the growing performance challenges faced by Indonesian MSMEs, the findings provide actionable guidance for owners and managers regarding which market-oriented practices should be prioritized and how innovativeness can be leveraged to convert those practices into sustained improvements in organizational performance.

Literature Review

Market Orientation Theory

Market orientation has long been regarded as a dominant philosophy underpinning modern business practice across leading corporations and academic institutions worldwide (Sharp, 1991). Jaworski & Kohli (1993) conceptualize market orientation as an organization-wide process that involves the generation and dissemination of market intelligence, followed by coordinated organizational responses to both current and future customer needs and preferences. At its core, market orientation emphasizes the delivery of novel solutions that address evolving customer demands, often requiring firms to engage in calculated risk-taking (Jaworski & Kohli, 1993).

From a theoretical standpoint, Narver & Slater (1990) define market orientation as an organizational culture committed to the continuous creation of superior customer value. Accordingly, it represents a strategic posture that cultivates the behaviors required to deliver greater value to buyers and, in turn, sustain superior business performance (Narver & Slater, 1990). This theoretical foundation provides a compelling argument regarding the pivotal role of market orientation in driving organizations toward superior performance outcomes.

As outlined above, this study incorporates supplier orientation to complement the three classical dimensions of market orientation advanced by Narver & Slater (1990), namely customer orientation, competitor orientation, and inter-functional coordination. In this context, Alhakimi & Mahmoud (2020) argue that supplier orientation extends the traditional downstream emphasis of market orientation by recognizing upstream relationships with suppliers as strategic sources of knowledge, innovation, and resource integration. Through such relationships, firms can gain access to suppliers' technical expertise, material innovations, manufacturing knowledge, and opportunities for collaborative product development, all of which can strengthen their capacity for innovation (Johnsen, 2009; Petersen et al., 2005). This orientation is particularly relevant to MSMEs, because their limited internal resources often

increase their reliance on external partners for knowledge, technology, and innovation-related capabilities (Alhakimi & Mahmoud, 2020; Spithoven et al., 2010). Accordingly, incorporating supplier orientation into the market orientation framework represents a theoretically coherent extension that provides a more comprehensive account of how MSMEs develop innovativeness. Therefore, this study adopts these four dimensions as the foundation for examining the relationship between market orientation and business performance within the MSME context.

Customer Orientation and Innovativeness

Prior research indicates that strengthening a firm's innovative capacity requires a deep understanding of customer needs and expectations. Kiani et al. (2019) demonstrate that organizations capable of effectively interpreting customer insights are better positioned to enhance their innovation capabilities. This relationship becomes particularly evident when firms leverage customer knowledge to generate new products or improve operational processes (Brockman et al., 2012). In the context of small firms, customer orientation has been empirically shown to contribute positively to innovativeness by enabling firms to respond more effectively to market demands (Brockman et al., 2012). Similarly, Alhakimi & Mahmoud (2020) confirmed that customer orientation plays a pivotal role in stimulating innovativeness among SMEs.

H_1: *Customer orientation positively influences MSMEs' innovativeness.*

Competitor Orientation and Innovativeness

Firms that actively monitor competitors tend to benchmark their performance and identify opportunities for differentiation by developing unique products and marketing strategies (Im & Workman, 2004). Such competitive awareness enables organizations to exploit market gaps and pursue innovative trajectories. However, some scholars caution that excessive competitor orientation may encourage imitation rather than genuine innovation, potentially leading to unfavorable innovation outcomes (Lukas & Ferrell, 2000). Nevertheless, an orientation toward competitors enables firms to acquire relevant market intelligence and identify aspects of their operations or offerings that require improvement (Alhakimi & Mahmoud, 2020). Continuous observation of competitors has also been found to support innovation outcomes, particularly in service delivery contexts (Pesämaa et al., 2013). Moreover, firms that place greater emphasis on competitor orientation tend to demonstrate a stronger willingness to undertake calculated risks, thereby increasing their propensity to innovate (Alhakimi & Mahmoud, 2020).

H_2: *Competitor orientation positively influences MSMEs' innovativeness.*

Inter-Functional Coordination and Innovativeness

Inter-functional coordination reflects the degree to which different organizational units collaborate and share information to achieve common objectives (Im & Workman, 2004). Effective coordination across functions has been associated with enhanced innovation because it facilitates knowledge exchange and collective problem-solving (Gatignon & Xuereb, 1997). Empirical evidence supports this relationship, with Grinstein (2008) demonstrating that cross-functional integration is positively linked to innovation outcomes. By enabling firms to combine diverse expertise and resources, inter-functional coordination serves as a critical process that fosters innovative capability.

H_3: *Inter-functional coordination positively influences MSMEs' innovativeness.*

Supplier Orientation and Innovativeness

Innovation is also frequently strengthened through collaboration with external stakeholders, particularly suppliers, whose knowledge and resources can provide valuable inputs for developing new

products, services, and processes. Entrepreneurs often consider inter-organizational cooperation essential for generating new ideas and improving product offerings (Massa & Testa, 2008). Kaminski et al. (2008) found that innovation within SMEs can be effectively realized through close cooperation with suppliers, who provide access to complementary knowledge and technological resources. Supplier relationships may also facilitate co-design processes involving both customers and suppliers, thereby enhancing innovation outcomes (Alhakimi & Mahmoud, 2020). Empirical findings further confirm that supplier orientation significantly contributes to SME innovativeness (Alhakimi & Mahmoud, 2020).

H_4: *Supplier orientation positively influences MSMEs' innovativeness.*

Innovativeness and Business Performance

Innovativeness generally refers to an organization's strategic inclination toward innovation-oriented activities (Chen et al., 2009). It encompasses elements such as creativity, novelty, value creation, and economic growth potential (Wikhamn, 2019). Innovativeness emerges when managers actively encourage new ideas and motivate employees to implement them, even when such ideas challenge established organizational practices (Domi et al., 2020). A substantial body of empirical research confirms that innovativeness contributes positively to SME performance. Udriyah et al. (2019) reported a significant relationship between innovativeness and SME performance, while Kiiru et al. (2023) identified innovativeness as a critical driver of performance improvement. Rhee et al. (2010) further highlighted that innovativeness becomes particularly important during periods of market turbulence, as it helps firms sustain performance. Moreover, innovativeness enables SMEs to create new products and services, strengthen competitive advantage, increase sales, and enhance profitability (Jalali et al., 2020).

H_5: *Innovativeness positively influences MSMEs' performance.*

Market Orientation, Innovativeness, and MSMEs' Performance

Previous studies have consistently demonstrated that market orientation contributes to the development of innovativeness (Alhakimi & Mahmoud, 2020; Suliyanto & Rahab, 2011; Tajeddini et al., 2006). At the same time, innovativeness has been shown to exert a significant influence on SME performance (Omri et al., 2024; Tran et al., 2024; Boateng et al., 2020; Ng et al., 2019). Rhee et al. (2010) argue that improvements in SME performance can largely be attributed to innovative practices that enable firms to respond effectively to changing market conditions. When organizations prioritize innovativeness, they are more likely to recognize customer needs, enhance customer satisfaction, and achieve improved profitability (Tajeddini et al., 2006). These arguments suggest that innovativeness may function as an explanatory mechanism linking market orientation to performance outcomes. Accordingly, this study proposes the following mediation hypotheses:

H_6: *Innovativeness mediates the effect of customer orientation on MSMEs' performance.*
H_7: *Innovativeness mediates the effect of competitor orientation on MSMEs' performance.*
H_8: *Innovativeness mediates the effect of inter-functional coordination on MSMEs' performance.*
H_9: *Innovativeness mediates the effect of supplier orientation on MSMEs' performance.*

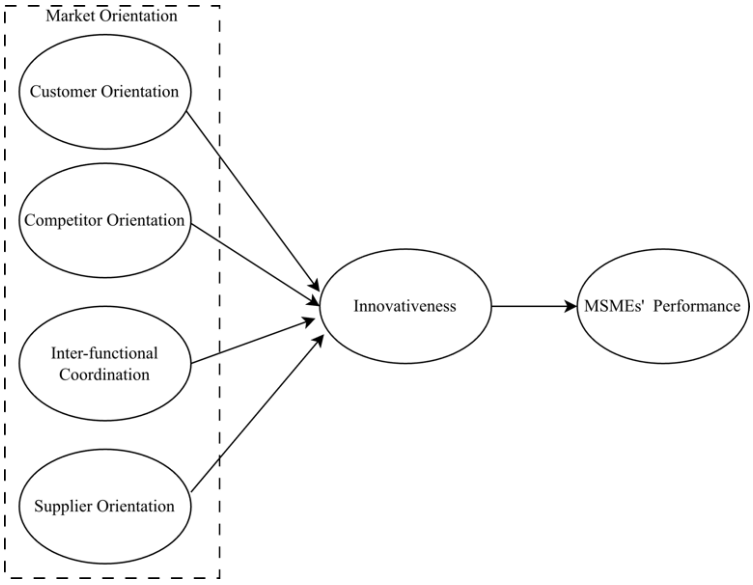


Figure 1. Research Framework

METHOD

Research Design and Sample

This study adopts a quantitative research design, utilizing a survey-based approach to empirically examine the proposed hypotheses. Such a design is particularly suitable for capturing perceptions and behavioral tendencies across a relatively broad population, while allowing for rigorous statistical testing of relationships (Sekaran & Bougie, 2016). By employing a structured questionnaire, the study seeks to systematically gather data that reflect the extent to which market orientation and innovativeness shape MSMEs' performance.

The empirical setting of this research focuses on MSMEs operating in the Special Region of Yogyakarta, Indonesia. This region provides a relevant context due to its dynamic entrepreneurial landscape and the growing emphasis on innovation-driven business practices. The sample specifically targets MSMEs that are not only market-oriented but have also engaged in innovation activities, ensuring alignment with the core constructs investigated in this study. To achieve this, a non-probability sampling technique, namely purposive sampling, was employed. This approach allows for the deliberate selection of respondents who meet predefined criteria and are therefore deemed capable of providing meaningful and reliable insights (Sekaran & Bougie, 2016). To ensure the relevance and quality of the data, two key eligibility criteria were applied. First, participating firms were required to have been in operation for at least one year, allowing sufficient time for market-oriented practices to develop. Second, eligible firms were required to have engaged in innovation activities involving products, services, or processes. Compliance with these requirements was verified through screening questions included at the outset of the questionnaire.

The required sample size was determined on the basis of statistical power considerations appropriate for Partial Least Squares Structural Equation Modeling (PLS-SEM), which served as the analytical method in this study. Drawing on the criteria recommended by Hair et al. (2022), with thresholds ranging from 0.11 to 0.20 at a 5% significance level, the minimum sample requirement was set at 155 respondents. After applying the screening criteria and data validation procedures, a total of 159 usable responses were obtained. The final sample marginally surpassed this requirement, providing sufficient statistical power to support rigorous hypothesis testing.

Table 1 provides a comprehensive overview of the characteristics of respondents involved in this study. In terms of managerial roles, the sample is predominantly composed of business owners (60.38%),

followed by managers (39.62%), indicating that the responses largely reflect decision-making perspectives at the ownership level. From an industry standpoint, the culinary sector dominates the sample (52.20%), followed by services (11.95%) and fashion (11.32%), while other sectors such as cosmetics, furniture, automotive, agribusiness, and handcrafts are represented in smaller proportions. Regarding business age, most firms are relatively young, with 64.15% operating between one to three years, indicating that the sample is reflects a substantial presence of early-stage enterprises.

Financially, the majority of respondents report annual revenues of less than IDR 300 million (71.07%), while 25.79% fall within the range of IDR 300 million to IDR 2.5 billion, and only 3.14% report revenues between IDR 2.5 billion and IDR 50 billion. Similarly, in terms of workforce size, 57.23% of the firms employ fewer than five employees, followed by 33.33% with 5–19 employees, and 9.43% with 20–99 employees. Based on these indicators, the sample is predominantly composed of micro-enterprises, both in terms of annual revenue and number of employees, with smaller proportions of small and medium enterprises. These characteristics reflects MSMEs' profile in Indonesia which consists mainly of micro-enterprises (Haryanti, 2024).

Table 1. The Respondents Profile

Characteristics	Categories	Frequencies (N = 159)	Percentage (%)
Positions	Owners	96	60.38
	Managers	63	39.62
Industries	Culinary	83	52.20
	Services	19	11.95
	Fashion	18	11.32
	Cosmetics	11	6.92
	Furniture	6	3.77
	Automotive	6	3.77
	Agribusiness	3	1.89
	Handcraft	3	1.89
	Others	10	6.29
Business Age	> 1-3 Years	102	64.15
	> 3-5 Years	26	16.35
	> 5 Years	31	19.50
Annual Revenues	≤ IDR 300 Million	113	71.07
	> IDR 300 Million-2.5 Billion	41	25.79
	> IDR 2.5 Billion-50 Billion	5	3.14
Number of Employees	< 5 Employees	91	57.23
	5-19 Employees	53	33.33
	20-99 Employees	15	9.43

Measurement Items, Data Collection, and Analysis

The variables examined in this study were measured using established instruments adapted from prior empirical studies, thereby ensuring both conceptual consistency and measurement rigor. All items were operationalized using a five-point Likert scale, ranging from 1 ("strongly disagree") to 5 ("strongly agree"), to capture respondents' perceptions. Customer orientation (CO), competitor orientation (COM), and inter-functional coordination (IC) were measured using scales originally developed by Narver & Slater (1990), which have been widely validated in market orientation studies. Supplier orientation (SO) was assessed using a three-item scale adapted from He et al. (2011), while innovativeness (I) was measured using five items derived from Keskin (2006). Business performance (P), as the key outcome variable, was evaluated through five perceptual indicators adapted from Vij & Bedi (2016). A summary of the measurement items is presented in Table 2.

Data collection was conducted through the distribution of online questionnaires targeted to MSME owners and managers, who are assumed to possess direct knowledge of their firms' strategic practices and performance outcomes. The questionnaires were disseminated via multiple digital channels, including social media platforms and e-commerce networks, allowing the study to reach respondents in an efficient and cost-effective manner. The collected data were subsequently analyzed using PLS-SEM, following the methodological guidelines outlined by Hair et al. (2022). The analysis was conducted in two sequential stages. First, the measurement model was examined to establish reliability and validity, and second, the structural model was then assessed to test the hypothesized relationships. In addition, the indirect effects were examined to provide a comprehensive understanding of the mechanisms underlying the proposed framework, thereby strengthening the study's empirical contribution.

Table 2. Overview of Measurement of Instruments

Variables	Item Code	Item Statements
Customer Orientation	CO1	Demonstrates a strong commitment to customers.
	CO2	Generates value that is specifically intended for customers.
	CO3	Possesses a clear understanding of customer needs.
	CO4	Aims to achieve customer satisfaction.
	CO5	Seeks to assess and monitor customer satisfaction.
	CO6	Provides after-sales services to customers.
Competitor Orientation	COM1	Actively seeks information about competitors.
	COM2	Responds promptly to actions taken by competitors.
	COM3	Engages in discussions regarding competitors' strategic approaches.
	COM4	Exploits available opportunities to strengthen competitive positioning.
Inter-functional Coordination	IC1	Customers are able to contact different departments within the business I manage.
	IC2	Important information is shared across all departments.
	IC3	All departments are aligned within the business strategy being implemented.
	IC4	All departments contribute to creating value for customers.
	IC5	Departments within the organization support one another and share resources.
Supplier Orientation	SO1	Establishes long-term relationships with suppliers.
	SO2	Maintains clear standards for evaluating supplier performance.
	SO3	Shares relevant information regarding supply needs with suppliers.
Innovativeness	I1	Often becomes the first to introduce new products and/or services.
	I2	Frequently attempts to implement new ideas.
	I3	Consistently seeks new ways of doing things.
	I4	Performs daily activities in a creative manner.
	I5	Improvement in generating new products and/or services over the recent period.
Business Performance	P1	Satisfied with the level of productivity achieved.
	P2	Satisfied with the market share attained.
	P3	Satisfied with the rate of sales growth achieved.
	P4	Satisfied with the level of profit generated.
	P5	Satisfied with overall business performance.

Following Hair et al. (2022), the measurement model was evaluated in terms of indicator reliability, convergent validity, and internal consistency reliability. Indicator reliability was initially assessed by examining the outer loading associated with each measurement item. As presented in Table

3, the majority of indicators demonstrate satisfactory loadings above the recommended threshold of 0.70, indicating that the items are strongly associated with their respective latent constructs. Although one item (CO6), exhibits an outer loading of 0.673, which falls slightly below the preferred threshold, it was retained for further analysis. This decision is consistent with Hair et al. (2022), who suggest that items with loadings between 0.40 and 0.70 may be preserved provided that the construct's overall convergent validity remains acceptable.

Subsequently, convergent validity was evaluated using the Average Variance Extracted (AVE). All constructs exceed the minimum threshold of 0.50, with AVE values ranging from 0.606 to 0.777. These results indicate that each construct explains more than half of the variance of its indicators, thereby confirming adequate convergent validity (Hair et al., 2022). In addition, internal consistency reliability was assessed using both Cronbach's alpha and composite reliability. The values of Cronbach's alpha range from 0.856 to 0.901, while composite reliability values range from 0.902 to 0.927, all of which surpass the recommended minimum level of 0.70 as suggested by Hair et al. (2022).

Table 3. Measurement Evaluation

Item	Outer Loadings	AVE	Cronbach's Alpha	Composite Reliability
CO1	0.790			
CO2	0.807			
CO3	0.816			
CO4	0.774			
CO5	0.804			
CO6	0.673	0.606	0.870	0.902
COMO1	0.872			
COMO2	0.908			
COMO3	0.880			
COMO4	0.830	0.762	0.896	0.927
IFC1	0.747			
IFC2	0.821			
IFC3	0.893			
IFC4	0.871			
IFC5	0.846	0.701	0.893	0.921
SO1	0.856			
SO2	0.904			
SO3	0.884	0.777	0.856	0.913
I1	0.750			
I2	0.827			
I3	0.858			
I4	0.850			
I5	0.765	0.659	0.893	0.906
P1	0.847			
P2	0.867			
P3	0.871			
P4	0.810			
P5	0.837	0.717	0.901	0.927

To further ensure that each construct captures a distinct conceptual domain, discriminant validity was assessed using the Heterotrait–Monotrait (HTMT) ratio of correlations, following the recommendations of Hair et al. (2022). As presented in Table 4, all HTMT values among the constructs fall below the conservative threshold of 0.85, indicating that the constructs are empirically distinguishable from one another (Hair et al., 2022). The highest HTMT value is observed between

Innovativeness and Supplier Orientation (0.828), followed by the relationship between Inter-Functional Coordination and Competitor Orientation (0.775), as well as Innovativeness and Competitor Orientation (0.760).

Despite these relatively higher correlations, they remain within acceptable limits, suggesting that the constructs, while related, do not overlap conceptually. The remaining HTMT values, including those involving business performance, customer orientation, and other constructs, range from moderate to low levels, further reinforcing the distinctiveness of each latent variable. These results provide strong evidence that discriminant validity has been satisfactorily established. Collectively, the evaluation of measurement model provides strong evidence that the measurement of this study is reliable and valid, thereby supporting its suitability for subsequent structural model analysis.

Table 4. The Discriminant Validity: Heterotrait-Monotrait Ratio (HTMT)

	Business Performance	**Competitor Orientation**	**Customer Orientation**	**Innovati-veness**	**Inter-Functional Coordination**	**Supplier Orientation**
Business Performance						
Competitor Orientation	0.623					
Customer Orientation	0.597	0.593				
Innovativeness	0.778	0.760	0.677			
Inter-Functional Coordination	0.635	0.775	0.675	0.708		
Supplier Orientation	0.741	0.710	0.686	0.828	0.705	

Results

Given that the data in this study were collected using a single survey instrument, the potential presence of common method bias (CMB) was carefully examined to ensure the robustness of the findings. Following the recommendation of Hair et al. (2022), the assessment was conducted using the inner variance inflation factor (VIF) approach within the PLS-SEM framework. As reported in Table 5, all inner VIF values fall well below the conservative threshold of 3.3, indicating that multicollinearity is not a concern in this model (Hair et al., 2022).

Specifically, the VIF values for the relationships involving Competitor Orientation (2.200), Customer Orientation (1.821), Inter-Functional Coordination (2.357), and Supplier Orientation (2.072) remain within acceptable limits. Additionally, Innovativeness exhibits a VIF value of 1.000, suggesting an absence of collinearity with other predictors. These results collectively suggest that the structural relationships observed in this study are unlikely to be influenced by common method bias, suggesting that common method bias is unlikely to materially distort the estimated relationships.

Table 5. Common Method Bias Evaluation: Inner VIF

	MSMEs' Performance	Competitor Orientation	Customer Orientation	Innovativeness	Inter-Functional Coordination	Supplier Orientation
MSMEs' Performance						
Competitor Orientation				2.200		
Customer Orientation				1.821		
Innovativeness	1.000					
Inter-Functional Coordination				2.357		
Supplier Orientation				2.072		

Table 6 shows the results of structural model evaluation, involved examining path coefficients, t-statistics, p-values, and the coefficient of determination (R^2) to assess the strength and significance of the hypothesized relationships as suggested by Hair et al. (2022). The results indicate that several dimensions of market orientation significantly influence innovativeness. Specifically, customer orientation exhibits a positive and significant effect on innovativeness ($\beta = 0.160$, $t = 2.154$, $p = 0.032$), supporting H1. Similarly, competitor orientation demonstrates a stronger positive effect on innovativeness ($\beta = 0.274$, $t = 3.621$, $p < 0.001$), confirming H2.

Additionally, supplier orientation also shows a substantial and significant contribution to innovativeness ($\beta = 0.379$, $t = 4.749$, $p < 0.001$), thereby supporting H4. In contrast, inter-functional coordination does not significantly affect innovativeness ($\beta = 0.110$, $t = 0.935$, $p = 0.350$), therefore H3 is not supported. Collectively, these variables explain a considerable proportion of variance in innovativeness, with an R^2 value of 0.621, indicating strong explanatory power. Moreover, innovativeness is found to have a highly significant and positive effect on business performance ($\beta = 0.689$, $t = 9.276$, $p < 0.001$), supporting H5. This finding underscores the central role of innovativeness as a key driver of MSMEs' performance with model explains 47.4% of the variance in business performance ($R^2 = 0.474$), suggesting a moderate to substantial level of explanatory capability.

Table 6. The Results of Hypotheses Testing

Hypotheses	Path Coeff.	t-stats	p-values	Results	R-Square
CO → I	0.160**	2.154	0.032	H1 supported	
COM → I	0.274***	3.621	0.000	H2 supported	
IFC → I	0.110	0.935	0.350	H3 not supported	
SO → I	0.379***	4.749	0.000	H4 supported	0.621
I → P	0.689***	9.276	0.000	H5 supported	
CO → I → P	0.110**	2.042	0.042	H6 supported	
COM → I → P	0.189***	3.596	0.000	H7 supported	
IFC → I → P	0.076	0.932	0.352	H8 not supported	
SO → I → P	0.261***	3.979	0.000	H9 supported	0.474

Note: ***, ** denote significance level on 1% and 5% respectively

Furthermore, a particularly noteworthy finding of this study lies in the mediation analysis, which highlights the pivotal role of innovativeness in translating market orientation into performance outcomes. The indirect effects reveal that innovativeness significantly mediates the relationship between customer orientation and business performance (β = 0.110, t = 2.042, p = 0.042), supporting H6. Likewise, competitor orientation exerts a significant indirect effect on performance through innovativeness (β = 0.189, t = 3.596, p < 0.001), confirming H7.

Supplier orientation also demonstrates a strong mediated effect via innovativeness (β = 0.261, t = 3.979, p < 0.001), supporting H9. However, the mediating role of innovativeness is not supported in the relationship between inter-functional coordination and business performance (β = 0.076, t = 0.932, p = 0.352), hence, H8 is not supported.

These results emphasize the strategic importance of innovativeness as a mechanism through which specific dimensions of market orientation, namely customer orientation, competitor orientation, and supplier orientation, are translated into enhanced business performance. This mediating role represents a key contribution of the study, offering a more nuanced understanding of how market-oriented practices create value within MSMEs.

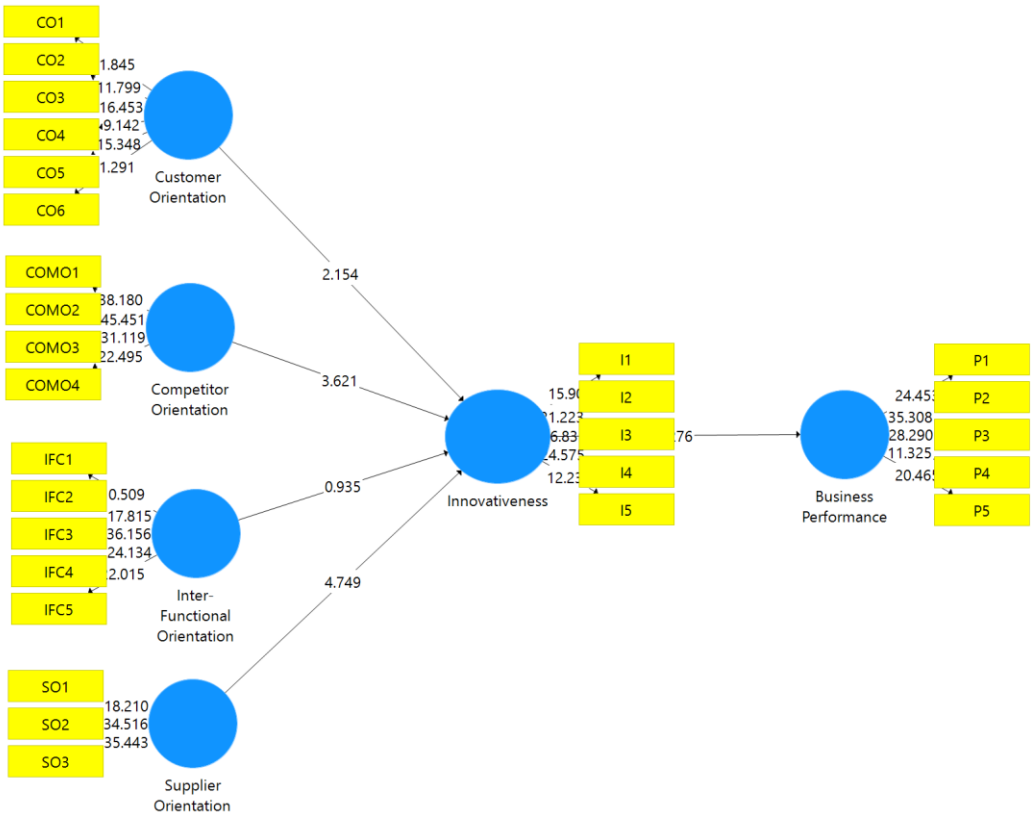


Figure 2. The Path Analysis of Inner Model

Table 7. Effect Size (f^2)

	MSMEs' Performance	Competitor Orientation	Customer Orientation	Innovativeness	Inter-Functional Coordination	Supplier Orientation
MSMEs' Performance						
Competitor Orientation				0.090		

	MSMEs' Performance	Competitor Orientation	Customer Orientation	Innovativeness	Inter-Functional Coordination	Supplier Orientation
Customer Orientation				0.037		
Innovativeness	0.903					
Inter-Functional Coordination				0.014		
Supplier Orientation				0.183		

In accordance with Hair et al. (2022), effect sizes (f^2) were examined to assess the relative influence of each exogenous construct on its respective endogenous variable. Following Cohen (1988) criteria, f^2 values of 0.02, 0.15, and 0.35 represent small, moderate, and large effects, respectively. As shown in Table 7, innovativeness demonstrates a substantial effect on MSMEs' performance ($f^2 = 0.903$), indicating a very strong contribution to explaining performance outcomes.

In addition, supplier orientation exhibits a moderate effect on innovativeness ($f^2 = 0.183$), while competitor orientation ($f^2 = 0.090$) and customer orientation ($f^2 = 0.037$) show small effect sizes, suggesting their more limited yet still meaningful contributions. Notably, inter-functional coordination records a negligible effect ($f^2 = 0.014$), falling below the minimum threshold for a small effect. This finding is consistent with its statistically insignificant relationship with innovativeness and its indirect influence on business performance, reinforcing the conclusion that inter-functional coordination plays a minimal role within the proposed model. Overall, the effect size analysis underscores the dominant role of innovativeness while revealing varying degrees of influence among the dimensions of market orientation.

Discussion

Drawing on the lens of market orientation theory proposed by Narver & Slater (1990), which conceptualizes market orientation as a strategic posture that promotes the organizational behaviors required to deliver superior customer value and, in turn, sustain enhanced business performance, this study investigates the impact of market orientation on innovativeness, which ultimately contributes to superior performance in the MSME context. The findings of this study offer a nuanced understanding of how different dimensions of market orientation shape innovativeness and, ultimately, business performance within the MSME context.

Consistent with prior studies, customer orientation, competitor orientation, and supplier orientation are found to exert significant positive effects on innovativeness, reinforcing the view that firms capable of sensing and responding to external stakeholders are better positioned to generate innovative outcomes (Alhakimi & Mahmoud, 2020; Brockman et al., 2012; Kaminski et al., 2008; Kiani et al., 2019). Among these dimensions, supplier orientation emerges as the most influential driver, suggesting that external collaboration and access to complementary resources play a particularly critical role in stimulating innovation. This finding aligns with the argument that innovation in SMEs is often co-created through inter-organizational relationships (Alhakimi & Mahmoud, 2020; Kaminski et al., 2008; Massa & Testa, 2008).

In contrast, inter-functional coordination does not exhibit a significant effect on innovativeness, indicating that internal alignment alone may not be sufficient to stimulate innovation in MSMEs. This finding is consistent with Alhakimi & Mahmoud (2020), who found that inter-functional coordination did not significantly influence SME innovativeness, and with Royo-Vela et al. (2022), who reported that

the inter-functional coordination dimension of market orientation did not contribute to performance in service SMEs. One plausible explanation lies in the organizational simplicity of the sampled firms. Micro-firms are typically owner-managed, with owner-managers often responsible for all areas of the business (Betton et al., 2023), while decision-making and internal coordination in micro-firms are frequently centralized around managers or owners (Annosi et al., 2025).

In such firms, coordination may be embedded in owner-led routines rather than institutionalized cross-functional systems. Consequently, inter-functional coordination may generate less distinctive innovation value than externally sourced information (such as information obtained from customers and suppliers), which have been recognized as important external knowledge sources for SME innovation (Sang et al., 2024). Therefore, these findings reinforce the view that market orientation in MSMEs context is not uniformly productive. Rather, its value depends on the specific informational source and organizational structure through which it operates.

The results further position innovativeness as a core performance-generating capability for MSMEs. This interpretation resonates with foundational work that conceptualizes innovativeness as an organizational capacity to embrace and implement new ideas, as well as with evidence showing its important implications for business performance (Hult et al., 2004). Rather than merely reflecting a general tendency to introduce new ideas, innovativeness appears to operate as a strategic means through which smaller firms renew their offerings, respond to market shifts, and create value despite resource limitations (Abid et al., 2024). It is therefore this finding consistent with recent and established studies that regard innovativeness as a critical capability for strengthening adaptability, competitiveness, and growth in uncertain business environments (Kiiru et al., 2023; Jalali et al., 2020; Rhee et al., 2010; Udriyah et al., 2019).

Building on this result, the mediation analysis provides a deeper explanation of how market orientation contributes to performance. The significant indirect effects found for customer orientation, competitor orientation, and supplier orientation highlight the central role of innovativeness as a mechanism that connects market-oriented practices with superior MSME performance. In this regard, market orientation has been shown to foster the development of innovativeness (Alhakimi & Mahmoud, 2020; Suliyanto & Rahab, 2011; Tajeddini et al., 2006), while innovativeness, in turn, has been consistently demonstrated to exert a significant effect on business performance (Omri et al., 2024; Tran et al., 2024; Boateng et al., 2020; Ng et al., 2019).

Importantly, this result should not be interpreted as denying the direct contribution of market orientation to performance, which has been well established in prior studies (Alhamami et al., 2024; Ngo, 2024; Chaudhary et al., 2023; Lobo et al., 2023; Sarwoko et al., 2023; Caemmerer & Hynes, 2022; Kovács & Szakály, 2022). Rather, the present study complements this body of knowledge by demonstrating that innovativeness serves as a meaningful pathway through which market knowledge derived from customers, competitors, and suppliers is transformed into superior MSME performance.

While prior studies has largely focused on direct relationships, the present findings demonstrate that the impact of market orientation on MSME performance is more complex and operates through an innovation-based pathway.The mediation effects identified for competitor and supplier orientation, in particular, suggest that firms benefit most when market awareness and external collaboration are actively leveraged to drive innovation. Conversely, the absence of a significant mediating effect for inter-functional coordination further emphasizes that the dimensions of market orientation differ in the extent to which they influence performance through innovativeness. Taken together, these insights extend the existing literature by offering a more refined explanation of how market orientation creates value, positioning innovativeness as the key mechanism that bridges strategic orientation and performance in MSMEs.

Theoretical Contribution

This study advances market orientation theory by offering a more nuanced explanation of how market-oriented practices are transformed into MSME performance. Specifically, it positions innovativeness as a key mechanism through which market intelligence is converted into new business responses and, ultimately, performance value. The findings further reveal that this mechanism is not uniform across all dimensions of market orientation: customer, competitor, and supplier orientations generate significant innovation-mediated effects, whereas inter-functional coordination does not. In particular, the strong role of supplier orientation broadens the conventional emphasis of market orientation theory from downstream customer and competitor insights to upstream supplier relationships. Thus, this study refines the understanding of market orientation by showing that its performance implications depend on which market-facing orientation is effectively translated into innovative action.

Managerial Implications

The findings offer practical guidance for MSME owners and managers in prioritizing market-oriented practices that strengthen innovativeness and performance. Supplier orientation should receive particular attention, as close collaboration with suppliers can provide valuable inputs for product development, alternative materials, and operational improvement. Competitor orientation is also important, provided that competitor intelligence is used to identify differentiation opportunities rather than merely imitate existing market offerings. In addition, customer orientation should be strengthened by systematically translating customer feedback, complaints, and satisfaction data into product or service improvements. Overall, the results suggest that market orientation creates greater managerial value when external information is not only collected, but deliberately converted into innovation-driven initiatives.

Conclusion

This study advances the understanding of how market orientation creates value for MSMEs by positioning innovativeness as a key explanatory pathway. The findings demonstrate that customer, competitor, and supplier orientations foster innovativeness, which subsequently contributes to superior business performance. More importantly, the results reveal that this innovation-based pathway is dimension-specific: market-oriented practices rooted in external knowledge appear to generate stronger performance value when they are transformed into new products, services, and business practices. Thus, the study does not simply reaffirm the importance of market orientation; it clarifies how selected dimensions of market orientation become performance-relevant through innovativeness. This provides a more precise explanation of the market orientation–performance linkage in resource-constrained MSMEs.

Despite its contributions, several limitations of this study should be acknowledged. The respondent profile is predominantly composed of MSMEs operating in the culinary sector (52.20%), relatively young firms with a business age of one to three years (64.15%), and largely classified as micro enterprises (57.23%). These sample characteristics may constrain the generalizability of the results because they do not fully represent the heterogeneity of MSMEs across industries, stages of business development, and organizational sizes. Future study is therefore encouraged to employ a more proportionally distributed sample, encompassing a broader range of industries, firm sizes, and business stages. By doing so, subsequent studies can enhance the external validity of the results while enabling a broader and more nuanced understanding of how market orientation and innovativeness interact to drive performance across varied MSME contexts.

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